

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 22nd day of March, 2004 (Effective Date), by and between The Washington Savings Bank, FSB, OTS Docket No. 08173 (WSB or Bank), a federally chartered stock savings bank, and the Office of Thrift Supervision (OTS), a bureau of the United States Department of the Treasury, acting through its Southeast Regional Director or his designee (Regional Director).

WHEREAS, the OTS is the primary federal regulator of the Bank;

WHEREAS, based upon the Bank's September 8, 2003 Report of Examination (2003 Examination), the OTS is of the opinion that WSB has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which the Bank is subject; and/or (ii) are considered to be unsafe and unsound;

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of an administrative proceeding against the Bank;

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Bank will: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices; and

WHEREAS, the Bank, acting through its Board of Directors (Board), without admitting or denying that such grounds exist except those as to jurisdiction, which are admitted, wishes to cooperate with the OTS and to evidence the intent to: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices.

NOW THEREFORE, in consideration of the above premises and the mutual undertakings set forth herein, the parties hereto agree as follows:

Compliance With Laws and Regulations

1. The Bank, its directors, officers, employees, agents, and subordinate organizations shall take all necessary and appropriate actions to comply with the following laws and regulations:
 - (i) 31 U.S.C. § 5311 et seq. (Bank Secrecy Act);
 - (ii) 12 U.S.C. § 2801 et seq. (Home Mortgage Disclosure Act);
 - (iii) 15 U.S.C. § 1601 et seq. (Equal Credit Opportunity Act);
 - (iv) 31 C.F.R. Part 103 (Department of Treasury Bank Secrecy Act Regulations);
 - (v) 12 C.F.R. § 563.177 (OTS Bank Secrecy Act Regulations);

- (vi) 12 C.F.R. § 563e.42(b)(2) (Community Reinvestment Act);
- (vii) 12 C.F.R. § 563.101 (Real Estate Lending Standards);
- (viii) 12 C.F.R. Part 203 (Regulation C, Home Mortgage Disclosure);
- (ix) 12 C.F.R. Part 202 (Regulation B, Equal Credit Opportunity);
- (x) 12 C.F.R. Part 226 (Regulation Z, Truth in Lending);
- (xi) 24 C.F.R. Part 3500 (Real Estate Settlement Procedure);
- (xii) 12 C.F.R. § 563.93 (Loans to One Borrower); and
- (xiii) 12 C.F.R. § 563.170 (Establishment and Maintenance of Records).

Compliance Program Audit

2. Within sixty (60) days after the Effective Date of this Agreement, the Board shall designate a member of the Bank's management to be responsible for the Bank's compliance with applicable consumer compliance laws and regulations. The Board shall, at a minimum, require an internal audit of the Bank's overall compliance program (Compliance Audit) to be performed annually. The first annual internal audit shall be completed no later than December 31, 2004. Management shall provide the Board with a detailed report of the results of the Compliance Audit. The Board shall review the Compliance Audit results and adopt and require Management to take such corrective action as the Board deems necessary. The Board's review and the corrective action required of Management shall be fully documented in the Board meeting minutes.

Home Mortgage Disclosure Act

3. Within sixty (60) days after the Effective Date of this Agreement, the Board shall adopt a formal written policy to ensure the Bank's compliance with the Home Mortgage Disclosure Act, 12 U.S.C. § 2801 et seq. (the HMDA), and Regulation C, 12 C.F.R. Part 203 (the HMDA Policy). The HMDA Policy shall designate an individual who shall be responsible for ensuring the accurate collection and recordation of all data and information required to be collected and maintained by the HMDA and Section 203.4 of Regulation C on the Bank's loan application register (LAR). The designated individual may be a Bank employee or member of management, or a third party agent retained by the Board. The HMDA Policy shall, at a minimum, require a quarterly review of the Bank's LAR to determine compliance with the HMDA, Regulation C and the Bank's HMDA Policy. A report detailing the results of Management's review shall be provided to the Board at the first regularly scheduled Board meeting following the end of each calendar quarter. The Board's review and discussion of Management's report, as well as any required corrective action, shall be fully documented in the Board meeting minutes. The Board shall require the immediate correction of all LAR errors identified in the Bank's 2003 Examination and shall address all other HMDA and LAR-related items of concern as noted in the Bank's 2003 Examination.

Community Reinvestment Act Reporting

4. Within sixty (60) days after the Effective Date of this Agreement, the Board shall adopt such policies and procedures as are necessary to ensure the Bank's compliance with 12 C.F.R. § 563e.42(b)(2). Such policies and procedures shall, at a minimum, specifically require that Management accurately report the aggregate number and aggregate amount of community development loans originated or purchased.

Bank Secrecy Act

5. Within sixty (60) days after the Effective Date of this Agreement, the Board shall review and, as necessary, revise WSB's Bank Secrecy Act (BSA) policies and procedures (BSA Policy) to ensure the Bank's compliance with the requirements of the Bank Secrecy Act, 31 U.S.C. § 5311 et seq., 31 C.F.R. Part 103, 12 C.F.R. § 563.177, and 12 C.F.R. § 563.180(d). The BSA Policy shall, at a minimum, include specific policies and procedures to ensure that transactions structured to evade or circumvent the BSA's requirements are detected and that a Suspicious Activity Report is filed, as required by Section 563.180(d). The BSA Policy also shall designate a member of management or a third party agent retained by the Board who shall be responsible for ensuring that the Bank complies with its BSA Policy, the BSA, 12 C.F.R. Part 103, and 12 C.F.R. §§ 563.177 and 563.180(d). Bank personnel with duties involving large currency transactions shall be provided comprehensive training on BSA reporting requirements. The Bank shall maintain records of such training sessions, including attendees.

Equal Credit Opportunity Act

6. The Board shall require Management to ensure that the Bank complies with the Equal Credit Opportunity Act and the implementing regulations set forth at 12 C.F.R. Part 202. Management shall ensure that the Bank's adverse action notices comply with the requirements of Section 202.9 and include the name and address of the OTS.

Real Estate Settlement Procedures Act

7. Within sixty (60) days after the Effective Date of this Agreement, the Board shall adopt written policies and procedures to ensure the Bank's compliance with the Real Estate Settlement Procedures Act, 12 U.S.C. § 2601 et seq. (RESPA), and 24 C.F.R. Part 3500 (RESPA Policy). The RESPA Policy shall designate a member of management or a third party agent retained by the Board who shall be responsible for ensuring compliance with the RESPA Policy, the RESPA, and Part 3500. The RESPA Policy shall, at a minimum, require that Management review the Bank's compliance with RESPA on a quarterly basis and report its findings to the Board.

Truth in Lending Act

8. Within sixty (60) days after the Effective Date of this Agreement, the Board shall adopt written policies and procedures governing the Bank's compliance with the Truth in Lending Act, 15 U.S.C. § 1601 et seq. (the TILA), and Regulation Z, 12 C.F.R. Part 226 (TILA Policy). The Board shall ensure that the Bank complies with the TILA Policy, the TILA, and 12 C.F.R. Part 226. The TILA

Policy shall designate an individual who shall be responsible for ensuring the Bank's compliance with the TILA Policy, the TILA and Regulation Z. The designated individual may be a Bank employee or member of management, or a third party agent retained by the Board. The TILA Policy shall, at a minimum, contain such policies and procedures as are necessary to ensure the accurate and timely provision of all required disclosures to consumers.

Lending

9. Within sixty (60) days after the Effective Date of this Agreement, the Board shall review and revise its loan policies and procedures to ensure compliance with 12 C.F.R. § 560.101, including the establishment of adequate and reasonable limitations on the amount of construction and speculative construction loans. The Board shall establish an overall limit for the Bank's total portfolio of construction loans expressed as a percentage of capital. Within the overall portfolio limit, the Board shall establish sub-limits for each: (i) loan type (speculative versus pre-sold), (ii) borrower, (iii) subdivision or development, (iv) borrower for each subdivision or development, and (v) metropolitan area. The Board also shall adopt limits on construction loans in which the borrower has a low level of equity or the loan provides for interest reserves. Management of the Bank shall prepare and provide quarterly reports to the Board containing detailed information on the Bank's speculative construction lending activities. Such information shall, at a minimum, include the number and dollar amount of units completed (90% or more of the original loan in process funds have been disbursed) and unsold, the number and dollar amount of foreclosed speculative construction loans, an aging schedule showing the length of time that property has been completed but unsold, and a comparison of the amount of construction lending with the limits established in accordance with this Paragraph 9. The Board shall review Management's reports and require Management to implement appropriate corrective action. The Board's review and discussion of Management's report, as well as any corrective action, shall be fully documented in the Board minutes. The Board also shall require the Bank's internal auditor to conduct a review of the construction and speculative construction loans to ensure the accuracy of the quarterly reports provided to the Board.
10. Within sixty (60) days after the Effective Date of this Agreement, the Board shall revise the Bank's lending policies identifying the requirements applicable to loans in which the loan to value (LTV) ratio will exceed the limits adopted by the Board consistent with the requirements of 12 C.F.R. § 560.101. The Board shall, at a minimum, require that Management maintain adequate documentation and records for all loans with LTV in excess of the limits established in 12 C.F.R. § 560.101, including lot loans in excess of prescribed LTV ratios and loans that otherwise qualify as high LTV loans based upon the use of the lower of purchase price or appraised value. Such documentation shall clearly set forth all relevant credit factors that support the approval of each loan and demonstrates the loan's compliance with the Bank's lending policies. Management shall provide the Board with quarterly reports of the aggregate amount of loans made in excess of applicable LTV ratios

and the documentation supporting the approval of each loan. The Board's review and discussion of Management's report, as well as any corrective action, shall be fully documented in the Board minutes.

Business Plan

11. Within one hundred and twenty (120) days after the Effective Date of this Agreement, the Board shall adopt and submit to the Regional Director for review and written approval, a new three (3) year business plan (Business Plan) for calendar years 2004, 2005 and 2006. The Business Plan shall, at a minimum, discuss the Bank's existing operations, asset structure, current market conditions, local demographics, available resources, and existing capital levels. The Business Plan also shall consider the limitations established by the Board for each type of loan or investment, including limitations on the Bank's construction loan portfolio. Based upon these factors, the Business Plan will: (i) contain balance sheet and income projections for the period covered by the Business Plan; and (ii) identify and discuss the Bank's future operations and business strategies, including the continuation of and/or projected increases in current activities and operations, as well as any new activities and operations. The Board shall make changes to the submitted Business Plan as required by the Regional Director.
12. The Board shall ensure that the Bank adheres to the Business Plan as approved by the OTS. The Board shall require Management to prepare quarterly variance reports (Variance Report) detailing the Bank's compliance with the Business Plan. The Variance Report shall be provided to the Board within thirty (30) days after the close of each quarter. The Variance Report shall detail actual operating results versus projected results, including compliance with Board established limitations on loans and investments. The Variance Report shall fully discuss any material deviations from the Business Plan and include a detailed description of the measures that have been implemented, proposed or are under current consideration to correct any such deviation. The Board shall fully document its review of the Variance Reports in the Board meeting minutes. The Board shall notify the OTS of any material deviation from the Business Plan within thirty (30) days after the occurrence of the deviation. Such notice shall include any corrective action taken or to be taken by the Board or Management to address the deviation. A deviation shall be considered material under this paragraph when:
 - (i) WSB engages in any type or level of activity that is inconsistent with the Business Plan; or
 - (ii) WSB exceeds the level of any activity contemplated in the Business Plan or fails to meet target amounts established in the Business Plan by more than 10%, unless the activity involves single family permanent loans, in which case a variance of more than 25% shall be deemed to be a material deviation.

Director Responsibility

13. Notwithstanding the requirements of this Agreement that the Board submit various matters to the Regional Director for the purpose of receiving his approval, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual director's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Bank at all times, including compliance with the determinations of the Regional Director as required by this Agreement.

Compliance with Agreement

14. All policies, procedures, corrective actions, plans, programs, reviews and systems required by this Agreement (collectively, Policies and Procedures) shall conform to all applicable statutes, regulations, OTS policy and guidance. The Board shall submit copies of all Policies and Procedures required by this Agreement to the Regional Director within thirty (30) days after adoption by the Board. The Board shall revise such Policies and Procedures as required by the Regional Director within thirty (30) days of receipt of written direction from the Regional Director. The Policies and Procedures, as modified consistent with the written direction of the Regional Director, shall be incorporated into this Agreement and any deviation from such Policies and Procedures shall be a violation of this Agreement.
15. The Board shall require Management to correct all deficiencies identified in the Bank's 2003 Examination, as directed therein. Further, the Board and Management of the Bank shall take immediate action to cause the Bank to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Bank to continue to carry out the provisions of this Agreement.
16. The Board shall, on a quarterly basis beginning with the calendar quarter ending June 30, 2004, adopt a board resolution (the Compliance Resolution) formally resolving that, following a diligent inquiry of relevant information (including a report from Management regarding the Bank's compliance with each numbered paragraph of this Agreement), to the best of its knowledge and belief, during the immediately preceding calendar quarter, the Bank has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall:
 - (i) specify in detail how, if at all, full compliance was found not to exist; and
 - (ii) identify all notices of exemption or non-objection issued by the Regional Director that were outstanding as of the date of its adoption.
17. The minutes of each meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution:

- (i) the identity of each director voting in favor of its adoption; and
 - (ii) the identity of each director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such director's reasoning for opposing or abstaining.
18. Within thirty (30) calendar days after the end of each calendar quarter, beginning with the calendar quarter ending June 30, 2004, the Bank shall provide to the Regional Director a certified true copy of the Compliance Resolution[s] adopted at the Board meeting pursuant to Paragraph 16 of this Agreement. The Board, by virtue of the Bank's submission of a certified true copy of such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except that in the event that one or more directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the Board meeting minutes.
19. The Board shall promptly respond to any request from the OTS for documents to demonstrate compliance with this Agreement, including making Bank records and documents available for OTS examiner review upon request.

Definitions

20. All technical words or terms used in this Agreement for which meanings are not specified or otherwise provided by the provisions of this Agreement shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, HOLA, FDIA or OTS Memoranda. Any such technical words or terms used in this Directive and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

Successor Statutes, Regulations, Guidance, Amendments

21. Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

Notices

22. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Agreement to be made upon, given or furnished to, delivered to, or filed with:
- (i) The OTS by the Bank, shall be sufficient for every purpose hereunder if in writing

and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 1475 Peachtree Street, N.E., Atlanta, Georgia, 30309, or telecopied to (404) 897-1861 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

- (ii) The Bank by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Bank 4201 Mitchellville Rd., Suite 300, Bowie, Maryland 20604, or telecopied to (301) 352-3121 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

Duration, Termination or Suspension of Agreement

23. This Agreement shall:

- (i) become effective upon its execution by the OTS, through its authorized representative whose signature appears below; and
- (ii) remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).

24. The Regional Director in his sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

Time Limits

25. Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted.

Effect of Headings

26. The Section headings herein are for convenience only and shall not affect the construction hereof.

Separability Clause

27. In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his sole discretion determines otherwise.

No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted

28. Nothing in this Agreement shall be construed as:

- (i) allowing the Bank to violate any law, rule, regulation, or policy statement to which it is subject; or
- (ii) restricting the OTS from taking such action(s) as are appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, any type of supervisory, enforcement or resolution action that the OTS determines to be appropriate.

Successors in Interest/Benefit

29. The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

Signature of Directors

30. Each Director signing the Agreement attests, by such act, that she or he voted in favor of a Board resolution authorizing the execution of this Agreement by the Bank.

Integration Clause

31. This Agreement represents the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to such subject matter. However, as noted herein, all Policies and Procedures required by this Agreement shall, upon modification consistent with the direction of the Regional Director, become part of this Agreement and any deviation from these policies shall be deemed a violation of this Agreement.

Enforceability of Agreement

32. The Bank represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Bank. The Bank acknowledges that this Agreement, is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. §1818.

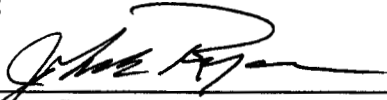
Counterparts

33. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and each of which shall be deemed an original.

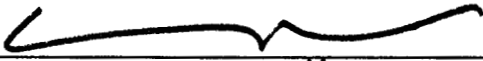
IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director and the Bank, in accordance with a duly adopted resolution of its Board, hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

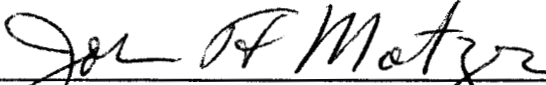
By:



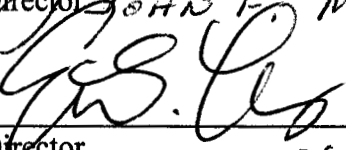
John E. Ryan
Regional Director



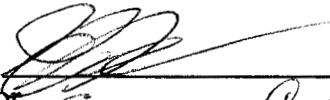
Director WILLIAM J. HARNETT



Director JOHN F. MOTZER




Director ERIC S. LODGE



Director George CONOVER

THE BANK

By:



Name: WILLIAM J. HARNETT
Title: CHAIRMAN, CEO



Director



Director

Director

Director

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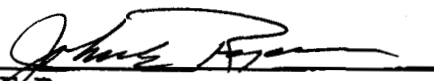
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OFFICE OF THRIFT SUPERVISION

By:


John E. Ryan
Regional Director

Director

Director

Director

Director

THE BANK

By:

Name:

Title:

Director

Director

Director


Director